

EULER Holdings UK PLC

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1998

**1 Canada Square
London E14 5DX**

Company Number 2337940



EULER Holdings UK PLC

Year Ended 31 December 1998

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EULER Holdings UK PLC

DIRECTORS & OFFICERS

Year Ended 31 December 1998

DIRECTORS: A L Brend Chairman
 F J M Y Aurillac
 R J Benzies
 L D C Brunner
 J E Lanier
 D G Perry
 R C Snedden
 Y de Gaulle

SECRETARY: V G C Steadman

AUDITORS: PricewaterhouseCoopers
 1 Embankment Place
 London WC2N 6NN

REGISTERED OFFICE: 1 Canada Square
 London E14 5DX

EULER Holdings UK PLC

REPORT OF THE DIRECTORS **Year Ended 31 December 1998**

The Directors present their report together with the audited financial statements of the Group for the year ended 31 December 1998.

Principal Activity

The Company is a holding company for subsidiaries offering credit insurance and credit management services, both in the United Kingdom and overseas.

Review of the Business and Future Developments

The results for the year are set out in the consolidated non-technical account on page 10. The Directors envisage the Company continuing in the same trade for the foreseeable future.

Dividends and Transfers to Reserves

The Directors recommend a final dividend of 1.9937p per share (1997: 2.7261p per share), costing £4,000,000 (1997: £5,000,000), leaving retained profits for the year of £6,208,000 (1997: £9,186,000).

Directors

The following served as Directors during the year:

A L Brend	
J H Bishop	Resigned 13 November 1998
R J Benzies	
G J Kent	Resigned 30 September 1998
C H Sporborg	Resigned 11 May 1998
P H Denieuil	Resigned 6 May 1998
J E Lanier	
R C Snedden	
F J M Y Aurillac	
L D C Brunner	
P Muuls	Resigned 1 September 1998
Y de Gaulle	Appointed 13 November 1998
D G Perry	Appointed 1 January 1998

Directors' Interests

The following interests in the share capital of the Company are declared by directors in service during 1998:

EULER Holdings UK PLC

REPORT OF THE DIRECTORS (Cont'd)

Year Ended 31 December 1998

The Trade Indemnity 1997 Executive Share Option Scheme

The options granted under The Trade Indemnity 1997 Executive Share Option Scheme are for shares in EULER Holdings UK PLC.

Director	Number of Options		Grant	Date When	Expiry
	01.01.98	31.12.98	Price	Exercisable	Date
R J Benzies	128,627	128,627	£0.64	13.10.00	12.10.04
	0	105,856	£0.76	06.11.01	05.11.05
J H Bishop	256,239	256,239	£0.64	13.10.00	12.10.04
G J Kent	126,172	126,172	£0.64	13.10.00	12.10.04
R C Snedden	130,273	130,273	£0.64	13.10.00	12.10.04
	0	64,757	£0.76	06.11.01	05.11.05

Mr J H Bishop exercised his options on 14 January 1999.

Tangible Assets

The changes in tangible assets are detailed in note 8 to the financial statements.

Charitable Donations

During the year, the Group made charitable donations of £11,974 (1997: £7,744). No political donations were made.

Employees

Regular briefing sessions were held with senior managers who were then held responsible for effective communication with staff in their operational areas to promote a better understanding of the objectives, activities and performance of the Group.

It is the Group's policy to provide equal opportunities in employment, career development and promotion to all who are eligible on the basis of ability, qualifications and fitness for work, irrespective of race, sex or marital status.

The Group gives fair consideration to all applicants for jobs including those who may be handicapped or disabled provided that their disabilities do not affect their ability to perform the job. Every effort is made to ensure that employees who become disabled can continue their employment. The Group continues to train and promote disabled employees where this is in the best interests of the Group and the individual concerned.

The Group has in place a Policy setting out its arrangements for the health, safety and welfare of employees and other persons which is regularly reviewed.

EULER Holdings UK PLC

REPORT OF THE DIRECTORS (Cont'd)

Year Ended 31 December 1998

Policy and practice on payment of creditors

It is Group policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice. The Group is a signatory to the CBI Code of Practice on Prompt Payment.

Suppliers are paid centrally by EULER Trade Indemnity plc and the Directors believe it would be helpful to give the disclosures on a Group basis. Trade creditor days of the Group for the year ended 31 December 1998 were 11 days (1997: 15 days), calculated in accordance with the Companies Act 1985.

Year 2000

Many computer systems express dates using only the last two digits of the year. These systems require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. The operation of our business depends not only on our computer systems, but also to some degree on those of certain other parties. There is, therefore, an exposure to further risk in the event that there is a failure by other parties to remedy their own year 2000 issues.

In 1997, the Group established a Year 2000 compliance project committee with a membership from across the business under the chairmanship of the Chief Executive Officer designed to address the impact of the year 2000 on the Group's businesses. The Board of Directors is regularly updated on progress by the project committee, which is controlling the exercise.

As part of the exercise, an analysis of significant risks has been performed to determine the impact of the issue on our activities. From this, prioritised action plans have been developed that are designed to address the key risks in advance of critical dates and without disruption to the underlying business activities. Priority is being given to those systems that could cause a significant financial or legal impact on the Group's business if they were to fail. The plan also includes a requirement for the testing of all business critical systems.

The risk analysis also considers the impact on our business of the year 2000 related failures by other parties.

The total cost, including incremental costs and replacement expenditure, to modify our computer hardware and software is estimated at £6.2m. Of this £6.0m had been incurred by the end of 1998 and the remaining £0.2m will be incurred in 1999.

In addition to the risk posed by systems failures within the Group, or within third parties on which the Group relies, there is also a risk of increased claims notifications resulting from the impact of year 2000 failures on our policyholders.

EULER Holdings UK PLC

REPORT OF THE DIRECTORS (Cont'd)

Year Ended 31 December 1998

Year 2000 (Cont'd)

Due to the uncertainties surrounding the year 2000 problem it is not possible to quantify the potential magnitude of claims arising from the year 2000 problem that may be notified in the future. To minimise the potential exposure, the Group has performed a review of its business to identify existing policy types against which year 2000 related claims may arise and appropriate action has been taken.

Introduction of the Euro

The Group has completed all the necessary formalities to transact business in the Euro which was successfully launched at the beginning of 1999. Any business opportunities arising from the new currency will, therefore, be open to us notwithstanding the UK's position to remain outside the core eleven countries who were committed at the launch.

Directors' & Officers' Insurance

The Group has purchased and maintains insurance for its Directors and Officers against liability for negligence, default, breach of duty or breach of trust in relation to the Group.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the Company will be proposed at the annual general meeting.

By Order of the Board



V G C Steadman
Secretary

16 JUN 1999

EULER Holdings UK PLC

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

The Directors are required by the Companies Act 1985 and other regulations to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. The financial statements of insurance groups are prepared in accordance with the requirements of section 255A of, and Schedule 9A (as modified by Part II of Schedule 9A) to, the Companies Act 1985.

The Directors confirm that suitable accounting policies have been used and applied consistently. The Directors confirm that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for ensuring that proper accounting records are maintained, which disclose with reasonable accuracy at any time the financial position of the Company and the Group and that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

EULER Holdings UK PLC

REPORT OF THE AUDITORS TO THE MEMBERS OF THE COMPANY

We have audited the financial statements on pages 9 to 28 which have been prepared in accordance with the accounting policies set out on pages 15 to 17.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report including as described on page 6 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Equalisation Reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirements for insurance companies to maintain an equalisation reserve. The nature of equalisation reserves, the amount set aside at 31 December 1998, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax are disclosed in note 12.

EULER Holdings UK PLC

REPORT OF THE AUDITORS (Cont'd) Year Ended 31 December 1998

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants & Registered Auditors
London

21 JUN 1999

EULER Holdings UK PLC

CONSOLIDATED TECHNICAL ACCOUNT – GENERAL BUSINESS Year Ended 31 December 1998

	Notes	1998 £'000	Restated 1997 £'000
Gross premiums written	1e	162,960	158,451
Discontinued operations		-	3,681
Outwards reinsurance premiums		(76,634)	(79,218)
Net premiums written		86,326	82,914
Change in gross provision for unearned premiums		1,020	4,927
Change in provision for unearned premiums, reinsurers' share		(5,040)	(5,066)
Change in net provision for unearned premiums		(4,020)	(139)
Earned premiums, net of reinsurance		82,306	82,775
Other technical income – information charges		4,850	4,737
		87,156	87,512
Gross claims paid		(59,246)	(76,500)
Reinsurers' share		24,555	37,685
Net claims paid		(34,691)	(38,815)
Change in gross provision for claims		(33,667)	(9,831)
Reinsurers' share		15,742	(254)
Change in net provision for claims		(17,925)	(10,085)
Claims incurred, net of reinsurance		(52,616)	(48,900)
Net operating expenses	2	(50,716)	(37,453)
Change in equalisation provision	12	10,966	1,664
Balance on the consolidated technical account		(5,210)	2,823
Analysis of the balance on the consolidated technical account is:			
Continuing operations		(5,210)	2,996
Discontinued operations		-	(173)
		(5,210)	2,823

EULER Holdings UK PLC

CONSOLIDATED NON-TECHNICAL ACCOUNT Year Ended 31 December 1998

	Notes	1998 £'000	Restated 1997 £'000
Balance on the consolidated technical account		(5,210)	2,823
Investment income	3	8,059	6,852
Realised gains on investments		3,251	10,079
Unrealised gains on investments		5,883	2,633
Unrealised losses on investments		(946)	(2,944)
Investment expenses and charges		(224)	(320)
		16,023	16,300
Other income – profit of related service subsidiaries		1,688	1,040
Share of associated undertaking's profits/(losses)		15	(114)
Provision for Year 2000 costs		-	(4,950)
		12,516	15,099
Other charges		(1,064)	(648)
Profit on ordinary activities before taxation:			
Continued operations		11,452	14,487
Discontinued operations		-	(36)
		11,452	14,451
Tax on profit on ordinary activities	4	(1,244)	(4,140)
Profit on ordinary activities for the financial year		10,208	10,311
Profit on disposal of shares in subsidiary company		-	3,875
Profit for the financial year		10,208	14,186
Dividend		(4,000)	(5,000)
Retained profit for the year		6,208	9,186

There are no recognised gains and losses other than the retained profits stated above.

There is no material difference between the profit as reported and on an historical basis.

EULER Holdings UK PLC

CONSOLIDATED BALANCE SHEET

Year Ended 31 December 1998

	Notes	1998 £'000	Restated 1997 £'000
ASSETS			
Investments			
Investment in associated undertaking	5	2,330	2,315
Other financial investments	6	155,702	134,067
		158,032	136,382
Reinsurers' share of technical provisions			
Provision for unearned premiums		22,872	27,912
Claims Outstanding		87,566	71,824
		110,438	99,736
Debtors			
Arising out of direct insurance operations		11,162	11,154
Arising out of reinsurance operations		1,486	1,014
Pipeline premiums		54,153	56,805
Pipeline reinsurance commission		6,937	15,063
Other debtors		7,681	7,050
		81,419	91,086
Other assets			
Tangible assets	8	10,095	7,302
Cash at bank and in hand	19	13,375	6,927
		23,470	14,229
Prepayments and accrued income			
Accrued interest		466	382
Deferred acquisition costs		9,576	9,701
		10,042	10,083
TOTAL ASSETS		383,401	351,516

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CONSOLIDATED BALANCE SHEET (Cont'd) Year Ended 31 December 1998

LIABILITIES	Notes	1998 £'000	Restated 1997 £'000
Capital and reserves			
Called up share capital	9	50,158	45,853
Share premium account	10(a)	36,120	22,376
Profit and loss account	10(b)	16,202	9,994
Shareholders' funds attributable to equity interests	11	102,480	78,223
Technical provisions			
Provision for unearned premiums		56,120	57,140
Claims outstanding		159,904	126,237
Equalisation provision	12	-	10,966
		216,024	194,343
Provision for other charges - deferred tax	13	1,409	-
Creditors			
Arising out of direct insurance operations	14	13,004	17,418
Arising out of reinsurance operations		5,302	3,241
Reinsurers' share of pipeline premiums		20,519	24,757
Pipeline brokerage		6,164	7,410
Other creditors including taxation and social security	15	10,313	15,777
		55,302	68,603
Accruals and deferred income			
Reinsurance commission unearned		8,186	10,347
TOTAL LIABILITIES		383,401	351,516

EULER Holdings UK PLC

CONSOLIDATED CASH FLOW STATEMENT Year Ended 31 December 1998


	Notes	1998 £'000	Restated 1997 £'000
Net cash inflow from operating activities	18	18,993	11,329
Returns on investments and servicing of financing			
Interest paid		(159)	(152)
Taxation			
Taxes paid on profits		(5,214)	(3,758)
Capital expenditure			
Purchase of tangible fixed assets		(6,451)	(2,875)
Sale of tangible fixed assets		446	826
		(6,005)	(2,049)
Acquisitions and disposals			
Proceeds on disposal of consolidated undertaking		-	13,230
Equity dividends paid		(5,000)	(3,000)
Financing			
Issue of ordinary share capital		18,000	-
Capital element of finance lease rental payments		(811)	(702)
		17,189	(702)
		<u>19,804</u>	<u>14,898</u>
CASH FLOWS WERE INVESTED AS FOLLOWS:			
Increase/(Decrease) in cash holdings		6,448	(6,224)
Net portfolio investment			
(Sale)/Purchase of ordinary shares	20(a)	539	21,491
Purchase (sale) of Unit Trusts	20(a)	5,070	(5,845)
(Sale)/Purchase of fixed income securities	20(a)	(62,495)	30,837
Purchase/(sale) of other investments	20(a)	76,726	(23)
Net decrease in deposits with credit institutions	20(a)	(6,484)	(25,338)
		13,356	21,122
Net investment of cash flows	20(b)	<u>19,804</u>	<u>14,898</u>

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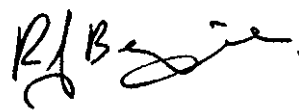
COMPANY BALANCE SHEET Year Ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Investments	7	78,864	60,864
Current assets		13,161	13,194
Less current liabilities	15	(4,191)	(5,191)
Net current liabilities		8,970	8,003
		<u>87,834</u>	<u>68,867</u>
Share capital	9	50,158	45,853
Share premium account	10(a)	36,120	22,376
Profit and loss account	10(b)	1,556	638
	11	<u>87,834</u>	<u>68,867</u>

Approved by the Board of Directors.


A L Brend
Chairman

16 JUN 1999


R J Benzies
Director

16 JUN 1999

EULER Holdings UK PLC

ACCOUNTING POLICIES

Year Ended 31 December 1998

Basis of Preparation

The requirements of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 have been applied in these financial statements.

The financial statements are prepared in accordance with applicable accounting standards in the United Kingdom and in accordance with the statement of recommended practice on accounting for insurance business issued by the Association of British Insurers dated December 1998. The Group financial statements have been prepared in accordance with Section 255A of, and Schedule 9A (as modified by Part II of Schedule 9A) to, the Companies Act 1985.

The balance sheet of the holding company has been prepared in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985. As permitted by Section 230(3) of the Companies Act 1985, the Company's Profit and Loss Account has not been presented.

Change in Accounting Policy

The Group changed its accounting policy for inwards reinsurance business from a fund accounting basis to an annual basis. The policy is now in accordance with the Group's direct general insurance business. The effect of this change in policy is explained in note 10 (b). Comparative figures have been restated as appropriate.

Basis of Accounting

The Company accounts for its insurance business on an annual basis.

Premiums written relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Group.

Unearned premiums represent the proportion of premiums written in the year that related to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis. In the opinion of the Directors the resulting provision is not materially different from one based on the pattern of incidence of risk.

Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years and deductions made for salvage.

Provisions for outstanding claims are established having regard to actuarial methods and statistical projections and other estimates of the ultimate cost of settlement.

EULER Holdings UK PLC

ACCOUNTING POLICIES (Cont'd) **Year Ended 31 December 1998**

Basis of Accounting (Cont'd)

Acquisition costs, which represent commission and other related expenses, are deferred subject to recoverability and amortised over the period in which the related premiums are earned.

Non insurance business is accounted for on an historical basis.

Unexpired Risk Provision

Unexpired risk provision is provided only to the extent of any deficiencies arising when unearned premiums, net of associated acquisition costs and future investment return on the investments supporting the unearned premium and unexpired risk provisions, are insufficient to meet expected claims and expenses having regard to events that have occurred up to the balance sheet date.

Interest in Group Undertaking

Shares in subsidiary undertakings are stated in the parent company accounts at cost less any permanent diminution in value. Shares in associated undertakings are included in the parent company balance sheet and in the consolidated balance sheet at the Group's share of net assets.

Translation of Currency

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the balance sheet date. All differences on exchange are dealt with through the non-technical account.

Tangible Assets

Expenditure incurred in the provision of tenants improvements, motor vehicles and equipment is written off on a straight line basis over their estimated useful lives, principally four years.

Leased Assets

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Depreciation on the relevant assets is charged to operating profit. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the technical account. All other leases are operating leases and the annual rentals are charged to operating profit on a straight line basis over the lease term.

EULER Holdings UK PLC

ACCOUNTING POLICIES (Cont'd)

Year Ended 31 December 1998

Investments

Listed investments are shown at market value. Unlisted investments are shown at Directors' valuation.

Investment income is accounted for on a receivable basis. Dividends are recognised on the date on which the related investments are marked ex-dividend. Interest income is accrued up to the balance sheet date.

Realised gains or losses represent the difference between net sale proceeds and purchase price.

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their valuation at the last balance sheet date or their purchase price if purchased during the year. All unrealised gains and losses are included in the non-technical account.

Equalisation Provision

An equalisation provision has been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 in relation to credit and suretyship business to mitigate exceptional high claims ratios for classes of business displaying a high degree of claims volatility.

Taxation

Provision for deferred taxation is calculated on the liability method and is provided only to the extent that it is considered reasonably probable that the liability will become payable within the foreseeable future.

Pension Benefits

The cost of providing pension benefits is charged on a systematic basis, with pension surpluses and deficits allocated over the expected remaining service lives of current employees.

Differences between the amounts charged and payments made to the plans are treated as assets or liabilities in the balance sheet.

EULER Holdings UK PLC

NOTES TO THE FINANCIAL STATEMENTS

Year Ended 31 December 1998

1. Profit before taxation	<u>1998</u>	<u>1997</u>
Profit before taxation is stated after charging:	£'000	£'000
(a) Depreciation	4,155	2,854
(b) Profit on disposal of fixed assets	174	89
(c) Finance lease charges	159	152
(d) Operating lease rentals – plant and machinery	1,862	1,993
– land and buildings	245	-

(e) Segmental reporting:

The segmental analysis of the Group's operations by geographical area is as follows:

	Gross premiums written		Profit/(loss) Before tax		Net assets/(liabilities)	
	<u>1998</u>	<u>Restated</u>	<u>1998</u>	<u>Restated</u>	<u>1998</u>	<u>Restated</u>
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	162,960	158,451	11,452	14,487	102,480	78,223
Australia	-	3,681	-	(36)	-	-
	<u>162,960</u>	<u>162,132</u>	<u>11,452</u>	<u>14,451</u>	<u>102,480</u>	<u>78,223</u>

Due to the nature of the Group's business, principally credit insurance, it is, in the opinion of the Directors inappropriate to split the figures other than by country of origin.

Premium written by destination is not materially different from premium written by origin. All premium represents sales to third parties.

(f) Prior years' claims provisions

(Underprovisions)/overprovisions for claims at the beginning of the year compared with net payments and provisions at the end of the year in respect of prior years' claims are:

	<u>1998</u>	<u>1997</u>
	£'000	£'000
Gross Claims Provisions	(8,219)	10,811
Reinsurers' share	6,405	(6,043)
	<u>(1,814)</u>	<u>4,768</u>

EULER Holdings UK PLC

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1998

2. Net operating expenses

	<u>1998</u>	<u>1997</u>
	£'000	£'000
Net operating expenses comprise:		
Management expenses	(38,545)	(36,146)
Brokerage	(21,694)	(17,476)
Reinsurance commission	17,095	27,354
Acquisition costs	(7,862)	(11,042)
Change in deferred acquisition costs	290	(143)
	<u>(50,716)</u>	<u>(37,453)</u>

3. Investment income

Investment income comprises:

Loss on disposal of investment property	-	(408)
Income from land and buildings	-	611
Income from other investments	8,059	6,649
	<u>8,059</u>	<u>6,852</u>

4. Taxation

Taxation charged in the non-technical account comprises:

UK corporation tax at 31% (1997: 31.5%)	478	(3,155)
Taxation on franked investment income	(313)	(1,180)
Overseas taxation	-	(7)
	<u>165</u>	<u>(4,342)</u>
Deferred taxation (note 13)	<u>(1,409)</u>	<u>202</u>
	<u>(1,244)</u>	<u>(4,140)</u>

5. Investment in associated undertaking

	Current Value		Cost	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£'000	£'000	£'000	£'000
Shares in undertaking	<u>2,330</u>	<u>2,315</u>	<u>1,849</u>	<u>1,849</u>

EULER Holdings UK PLC

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1998

5. Investments in associated undertaking (Cont'd)

Investment in associated undertaking represents a 25.1% shareholding in QBE Trade Indemnity Limited. The current value represents the Group's share of net assets and post-acquisition reserves, accounted for using the equity method of accounting.

QBE Trade Indemnity Limited has issued 3,765,000 Class A shares and 11,235,000 Class B shares. All Class A shares are held by this Group representing 100% of that class of shares. Both Class A and Class B confer equal rights.

6.a) Other financial investments - Group

	Market Value		Cost	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£'000	£'000		£'000
Ordinary shares - listed	54,063	52,390	42,251	46,140
- unlisted	-	-	27	27
Unit trusts - listed	4,970	-	5,070	-
British government securities - listed	4,806	59,266	4,700	58,379
Foreign government securities - listed	-	1,077	-	1,046
Certificates of Deposit - unlisted	75,478	-	75,191	-
Fixed Time Deposits - unlisted	1,566	-	1,566	-
Staff mortgages	62	93	62	93
	<u>140,945</u>	<u>112,826</u>	<u>128,867</u>	<u>105,685</u>
Cash deposits with credit institutions	<u>14,757</u>	<u>21,241</u>	<u>14,757</u>	<u>21,241</u>
	<u>155,702</u>	<u>134,067</u>	<u>143,624</u>	<u>126,926</u>

All listed investments are traded on recognised exchanges.

6.b) Other financial investments - Company

	<u>1998</u>	<u>1997</u>
	£'000	£'000
Cash deposits with credit institutions	<u>-</u>	<u>4,300</u>

7. Investments - Company

	<u>1998</u>	<u>1997</u>
	£'000	£'000
Investment in subsidiaries:		
At 1 January	60,864	60,864
Additions	18,000	-
At 31 December	<u>78,864</u>	<u>60,864</u>

Shares in subsidiaries are stated at cost less any permanent diminution in value.

EULER Holdings UK PLC

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1998

8. Tangible assets - Group

Tangible assets comprise:

	Motor Vehicles £'000	Equipment £'000	Tenants Improvements £'000	Total £'000
Cost at 01.01.98	1,928	6,725	4,864	13,517
Additions	769	6,353	98	7,220
Disposals	(806)	(1,437)	-	(2,243)
Cost at 31.12.98	<u>1,891</u>	<u>11,641</u>	<u>4,962</u>	<u>18,494</u>
Depreciation at 01.01.98	1,075	3,871	1,269	6,215
Disposals	(595)	(1,366)	(10)	(1,971)
Charge for year	463	2,971	721	4,155
Depreciation at 31.12.98	<u>943</u>	<u>5,476</u>	<u>1,980</u>	<u>8,399</u>
Net Book Value at 31.12.98	<u>948</u>	<u>6,165</u>	<u>2,982</u>	<u>10,095</u>
Net Book Value at 31.12.97	<u>853</u>	<u>2,854</u>	<u>3,595</u>	<u>7,302</u>

Assets held under finance leases of £1,891,000 (1997: £1,792,000) are included in motor vehicles at cost. Accumulated depreciation on leased assets was £943,000 (1997: £977,000). Depreciation on leased assets of £463,000 (1997: £448,000) has been charged to the technical account for the year.

9. Called up share capital

<u>Authorised 25p - ordinary shares</u>	Number of <u>Shares</u>	<u>£'000</u>
At 01.01.98 and 31.12.98	243,400,000	60,850
<u>Allotted, called up and fully paid</u>		
At 01.01.98	183,413,857	45,853
Shares issued in year	17,217,606	4,305
At 31.12.98	<u>200,631,463</u>	<u>50,158</u>

On 29 May 1998 the Company acquired the whole of the issued share capital of EULER International Limited for £18,000,000. This acquisition was financed by the issue of 17,142,857 25p ordinary shares at £1.05 each. Share premium of 80p per share has been recognised on this issue.

EULER Holdings UK PLC

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

Year Ended 31 December 1998

9. Called up share capital (cont'd)

In addition, share options for 74,749 ordinary shares were exercised at the option price of 64p each. A premium of 39p per share has been recognised.

During 1998, 986,194 options were granted under the Executive Share Option Scheme (1997: 1,722,507). These become exercisable on 06.11.01 and expire on 05.11.05.

10.a) Share premium

	<u>Group</u>		<u>Company</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£'000	£'000	£'000	£'000
At 1 January	22,376	22,376	22,376	22,376
Share issue in Year	13,744	-	13,744	-
At 31 December	<u>36,120</u>	<u>22,376</u>	<u>36,120</u>	<u>22,376</u>

10.b) Profit and loss reserves

	<u>Group</u>		<u>Company</u>	
	<u>1998</u>	<u>Restated 1997</u>	<u>1998</u>	<u>1997</u>
	£'000	£'000	£'000	£'000
As previously reported at 1 January		587		638
Prior Year adjustment		221		-
As restated at 1 January	<u>9,994</u>	<u>808</u>	<u>638</u>	<u>638</u>
Retained profit for the year	<u>6,208</u>	<u>9,186</u>	<u>918</u>	<u>-</u>
At 31 December	<u>16,202</u>	<u>9,994</u>	<u>1,556</u>	<u>638</u>

The prior year adjustment of £221,000 is made as a result of the change in method of accounting for inwards business from a fund accounting basis to an annual basis and is adjusted to opening reserves. The £221,000 represents the net profit release on the open underwriting years 1996 and prior.

The effect of the change in accounting policy in 1997 is to increase the profit before taxation by £493,000 from £13,958,000 to £14,451,000.

The effect on 1998 is to increase profit before taxation by £147,000 from £11,305,000 to £11,452,000.

EULER Holdings UK PLC

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

Year Ended 31 December 1998

	<u>Group</u>		<u>Company</u>	
		<u>Restated</u>		
11. Reconciliation of movements in Shareholders' funds	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£'000	£'000	£'000	£'000
Profit for the financial year	10,208	14,186	4,918	5,000
Dividends	(4,000)	(5,000)	(4,000)	(5,000)
	<u>6,208</u>	<u>9,186</u>	<u>918</u>	<u>-</u>
Shares issued during the year	18,049	-	18,049	-
Net addition to shareholders' funds	<u>24,257</u>	<u>9,186</u>	<u>18,967</u>	<u>-</u>
Opening shareholders' funds	78,223	68,816	68,867	68,867
Prior Year adjustment	-	221	-	-
Closing shareholders funds	<u>102,480</u>	<u>78,223</u>	<u>87,834</u>	<u>68,867</u>
12. Equalisation provision			<u>1998</u>	<u>1997</u>
			£'000	£'000
Opening provision			10,966	12,630
Transfer from consolidated technical account			(10,966)	(1,664)
Closing provision			<u>-</u>	<u>10,966</u>

Equalisation provisions are established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A (as modified by Part II of Schedule 9A) to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date.

The movement in equalisation provisions during the year, amounting to £10,966,000 (1997: £1,664,000), resulted in an increase in the general business consolidated technical result and the profit before taxation. The transfer from equalisation provisions during the year reduced these provisions at the balance sheet date to nil.

13. Deferred taxation	<u>1998</u>	<u>1997</u>
	£'000	£'000
Opening provision	-	202
Charge/(Release) in year	<u>1,409</u>	<u>(202)</u>
Closing provision	<u>1,409</u>	<u>-</u>

Deferred taxation comprises the tax liability on unrealised investment gains.

EULER Holdings UK PLC

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1997

14. Insurance creditor

	<u>1998</u>	<u>Restated</u>
	£'000	1997
		£'000
Payable within one year:		
Arising out of direct insurance operations	11,809	16,340
Finance lease creditors	426	730
	<u>12,235</u>	<u>17,070</u>
Payable after more than one year but less than five years:		
Finance lease creditors	769	348
	<u>13,004</u>	<u>17,418</u>

15. Other creditors

	Group		Company
	<u>1998</u>	<u>1997</u>	<u>1998</u>
	£'000	£'000	£'000
			<u>1997</u>
			£'000
Sundry creditors	1,897	982	-
Proposed dividend	4,000	5,000	4,000
Taxation	4,416	9,795	191
	<u>10,313</u>	<u>15,777</u>	<u>4,191</u>
			<u>5,191</u>

16. Directors' remuneration

Directors' fees amounting to £87,000 (1997: £59,000) were paid to the Directors.

	<u>1998</u>	<u>1997</u>
	£'000	£'000
Directors' emoluments		
Emoluments	1,874	1,037
Pension contributions	245	96
	<u>2,119</u>	<u>1,133</u>

The highest paid Director's emoluments including pension contributions were £1,260,000 (1997: £506,000). The accrued pension entitlement of the highest paid Director at 31 December 1998 was £5,604 (1997: £24,426). Two Directors are members of the Company Defined Benefit Pension Scheme and benefits accrued to them during 1998 under that Scheme amounted to £28,464 (1997: 89,961).

EULER Holdings UK PLC

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1998

17. Staff numbers and costs

The monthly average number of employees of the Group during 1998 was 465 (1997:507), analysed as follows:

<u>Average number of staff</u>	<u>1998</u>	<u>1997</u>
Underwriting	147	153
Inwards reinsurance	3	3
Other	315	351
	<u>465</u>	<u>507</u>
	<u>1998</u>	<u>1997</u>
<u>Staff Costs</u>	<u>£'000</u>	<u>£'000</u>
Wages and salaries	17,579	15,246
Social security costs	1,424	1,254
Other pension costs	2,714	2,432
	<u>21,717</u>	<u>18,932</u>

18. Reconciliation of profit before taxation to net cash inflow from operating activities

	<u>1998</u>	<u>Restated</u>
	<u>£'000</u>	<u>£'000</u>
Profit before taxation	11,452	14,451
Increase/(decrease) in debtors, prepayment and accrued income	9,708	16,370
(Increase)/decrease in creditors, accruals and deferred income	(9,083)	(11,551)
Share of associated company's undertaking (profits)/losses	(15)	114
Increase/(Decrease) in net technical provisions and reserves	10,979	(1,204)
Realised gains on sale of investments	(3,251)	(10,079)
Unrealised (gains)/losses on investments	(4,937)	311
Profit on sale of fixed assets	(174)	(89)
Interest expense	159	152
Depreciation	4,155	2,854
	<u>18,993</u>	<u>11,329</u>

EULER Holdings UK PLC

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1998

19. Analysis of the balances of cash and other liquid investments

	<u>1998</u>	<u>1997</u>
	£'000	£'000
Cash at bank and in hand	15,171	9,126
Bank overdrafts	(1,796)	(2,199)
	<u>13,375</u>	<u>6,927</u>

20. Portfolio Investments

(a) Cash flows invested in portfolio investments

	<u>1998</u>	<u>1997</u>
	£'000	£'000
Purchase of ordinary shares	13,728	47,072
Purchase of Unit Trusts	5,070	-
Purchase of fixed income securities	219,728	415,874
Purchase of other investments	76,757	-
Sale of ordinary shares	(13,189)	(25,581)
Sale of Unit Trusts	-	(5,845)
Sale of fixed income securities	(282,223)	(385,037)
Sale of other investments	(31)	(23)
Net decrease in deposits with credit institutions	(6,484)	(25,338)
	<u>13,356</u>	<u>21,122</u>

(b) Analysis of changes in cash balances and portfolio investments

	<u>1997</u>	<u>Cash flow</u>	<u>Changes to</u>	<u>1998</u>
	£'000	£'000	market value £'000	£'000
Cash in hand and at bank	6,927	6,448	-	13,375
Shares	52,390	539	1,134	54,063
Unit Trusts	-	5,070	(100)	4,970
Government securities	60,343	(62,495)	6,958	4,806
Certificates of deposits	-	76,757	287	77,044
Deposits with credit institutions	21,241	(6,484)	-	14,757
Loans	93	(31)	-	62
	<u>140,994</u>	<u>19,804</u>	<u>8,279</u>	<u>169,077</u>

EULER Holdings UK PLC

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1998

21. Subsidiary and associated undertakings

Subsidiaries	% held	Country in which Registered	Principal Activity
EULER Trade Indemnity plc	100	England & Wales	Credit Insurance
EULER Trade Indemnity Collections Ltd	100	England & Wales	Debt Collection
EULER Trade Indemnity Risk Services Ltd	100	England & Wales	Credit Analysis & Reporting Service
EULER International Ltd	100	England & Wales	Credit Insurance
QBE Trade Indemnity Australia Ltd	25.1	Australia	Credit Insurance

22. Auditors' remuneration

Auditors' remuneration in respect of audit services amounting to £157,700 (1997: £138,700) has been charged to expenses during the year.

Auditors' remuneration for non-audit services during the year was £179,709 (1997: £122,000).

23. Related Party Transactions

The company is a wholly owned subsidiary and has taken advantage of the exemptions under Financial Reporting Standard No. 8 of disclosing transactions with Group entities.

24. Pension costs

The Group operates pension schemes of the funded defined benefit type in the UK.

The total pension cost for the Group was £2,714,000 (1997: £2,432,000) none of which (1997: £85,596) relate to overseas schemes. The costs relating to the UK funded scheme which covers 98% of the UK employees are assessed in accordance with the advice of a qualified independent actuary using the Projected Unit Method.

The latest actuarial valuation of the UK Scheme was 1 July 1996. The most significant assumptions were that investment return would be 8.5% per annum and that salary increases would be 7% per annum and that the rate of discretionary increase on present and future pensions would be 4% per annum.

EULER Holdings UK PLC

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

Year Ended 31 December 1998

24. Pension costs (cont'd)

In his valuation at 1 July 1996, the Actuary stated that the actuarial value of the assets of the scheme would be £34,540,000 covering 94% of the benefits accrued to members after allowing for future increases in earnings. The ongoing contribution rate for the scheme will, in the opinion of the Actuary, be sufficient to eliminate the deficit over the average remaining working lifetimes for the existing membership. The market value of the assets of the scheme were £35,601,000 at 1 July 1996.

25. Operating lease commitments

Annual commitments of the Group under non-cancellable operating leases are as follows:

	<u>Land and Buildings</u>		<u>Other</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£'000	£'000	£'000	£'000
Leases which expire:				
within 1 year	1,471	245	2,256	2,058
within 2 - 5 years	5,883	5,883	2,214	4,116
after 5 years	10,050	11,521	-	-
	<u>17,404</u>	<u>17,649</u>	<u>4,470</u>	<u>6,174</u>

26. The holding company

The holding company at 31 December 1998 was EULER S.A. which is incorporated and registered in France, copies of whose consolidated financial statements can be obtained from 1 Canada Square, London E14 5DX.

The ultimate holding company at 31 December 1998 was Allianz A.G., which is incorporated and registered in Germany, copies of whose consolidated financial statements can be obtained from Koniginstrasse 28, 80802 München, Germany.